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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003283

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SUBJECT: BLAME GAME IMMOBILIZES KMT ON DEFENSE BUDGET

REF: 2004 TAIPEI 00839

Classified By: Classified By: AIT Director Douglas Paal, Reason(s):1.4 (B/D).

1. (C) Summary: KMT legislator and KMT Chairman-elect Ma Ying-jeou advisor Su Chi told AIT that no compromise is possible on the Defense Procurement Special Budget until President Chen Shui-bian and his government make meaningful concessions. Su acknowledged that Taiwan needs to improve its defensive capabilities and expressed interest in purchasing antisubmarine aircraft and upgraded anti-missile defenses, but he argued that since President Chen and his government had created the Special Budget deadlock, the KMT is not in a position to take the initiative to move the Defense Budget forward. The Deputy Director stressed that in light of Taiwan's waning deterrent capability, it is unwise of both the Pan-Blue and Pan-Green to put domestic political concerns before Taiwan's security. Meanwhile Chairman-elect Ma himself cryptically announced his "conditional support" of the arms package pending a review by the KMT. And the Taiwan Ministry of National Defense (MND) announced that the government is considering reducing the Special Budget price by moving one or more of the weapons systems into the regular defense budget. End summary.

2. (C) On August 3, KMT legislator Su Chi, a supporter of and foreign policy advisor to KMT Chairman-elect Ma Ying-jeou, told the Deputy Director that many within the KMT, including himself, recognize Taiwan's need to increase its self-defense capability and are willing to go forward with an expanded defense budget. He explained that he and other KMT legislators support the purchase of certain weapon systems in the Defense Procurement Special Budget, particularly the P-3C antisubmarine reconnaissance aircraft and possibly the PAC-3 anti-missile systems, but they have strong reservations about the purchase of submarines. Su argued that the Chen government's refusal to consider breaking the Special Budget package apart had brought discussions to a halt. (NOTE: As we report Septel, Su also argued that the March 20, 2004 defeat of a referendum on missile defense can be interpreted to preclude purchase of PAC-III or other air defense systems. END NOTE.)

3. (C) Su told the Deputy Director that the political divide and animosity in Taiwan run deep. The DPP strategy of attacking the KMT, then publicly blaming the KMT for its unwillingness to cooperate, has generated enormous enmity within the KMT, even among Su and other self-described moderates. He also accused the DPP of attempting to monopolize Taiwan's communication channels to Washington by directing the Government Information Office (GIO) to omit KMT representatives from the itinerary of journalists visiting Taiwan, by excluding KMT leaders from pro-democracy forums, and by using U.S. think-tanks and former USG officials to criticize the KMT as obstructionist and "pro-China."

4. (C) Su stated that he fully understands Taiwan must upgrade its defensive capabilities, but he explained that the domestic political deadlock prevents the KMT taking the lead. Any solution of the impasse, he insisted, must begin with the President and his administration, including their willingness to modify the Special Budget package and to make the first conciliatory gestures, including consulting more extensively with the KMT on defense issues. Without the political cover of such a gesture, he explained, no one within the KMT would be willing to risk being cast as a DPP collaborator by supporting the defense budget. Even newly elected KMT Chairman Ma Ying-jeou, he maintained, would be unwilling to risk advocating for the Special Budget until President Chen made concessions. Current Chairman Lien Chan, he noted, had stated that "as long as the DPP government does not cause any trouble," the KMT would be willing to approve an arms procurement bill if the budget amount is "appropriate" and can be spread between a special and normal annual budget.

5. (C) The Deputy Director told Su that senior US officials are perplexed by the insistence of Taiwan political leaders on all sides to put Taiwan domestic political concerns above Taiwan's need to modernize its defense capabilities, particularly given US commitments under the TRA. He

cautioned that if Taiwan is unwilling or unable able to commit increased resources to its own defense, it will adversely impact the USG's ability to come to Taiwan's aid in time of crisis should the USG chose to do so.

16. (U) Two days after Su Chi spoke with the Deputy Director, President Chen publicly stated that one or more of the proposed weapons systems might be shifted into the regular defense budget, thus reducing the current NT \$480 billion (US \$15 billion) size of the proposed Special Budget. The next day, KMT Chairman-elect Ma Ying-jeou, commenting on a letter from members of the U.S. House of Representatives Taiwan Caucus, stated his "conditional support" of the arms package pending an unspecified review by the KMT.

PAAL